

Message Text

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ORIGIN EUR-12

INFO OCT-01 EA-07 ISO-00 SSO-00 NSCE-00 USIE-00 INRE-00
ERDA-05 AID-05 CEA-01 CIAE-00 COME-00 DODE-00 EB-08
FPC-01 H-01 INR-07 INT-05 L-03 NSAE-00 NSC-05 OMB-01
PM-04 OES-06 SP-02 SS-15 STR-04 TRSE-00 ACDA-07 FEA-01
XMB-02 /103 R

DRAFTED BY EUR/SOV:JTREICHEL:DKM
APPROVED BY EUR/SOV:MGARRISON
EUR/SOV:WHEDGAR
TREASURY:MSEARING
COMMERCE:JBROUGHER
EA/J:DSMITH
EUR/WE:EBEIGEL
EB/FSE:MCREEKMORE

-----160048Z 048618 /61

O 160010Z MAR 77
FM SECSTATE WASHDC
TO AMEMBASSY MOSCOW IMMEDIATE
AMEMBASSY TOKYO IMMEDIATE
AMEMBASSY PARIS IMMEDIATE

C O N F I D E N T I A L STATE 057959

MOSCOW FOR EMBASSY AND USCO

E.O. 11652: DGS

TAGS: ELON, ENRG, ETRD, UR

SUBJECT: YAKUTSK LNG PROJECT

1. SUMMARY. OFFICIALS OF EL PASO NATURAL GAS MET WITH
STATE, COMMERCE, AND TREASURY OFFICIALS MARCH 10-11 TO
DISCUSS FUTURE DEVELOPMENTS OF YAKUTSK LNG PROJECT. EL
PASO STATED PRELIMINARY NEGOTIATIONS WITH JAPANESE PART-
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NERS TO BEGIN THIS WEEK IN PARIS. AMERICANS AND JAPANESE
WILL THEN MEET NEXT WEEK WITH SOVIETS IN MOSCOW. KAMA
PURCHASING COMMISSION HAS RAISED WITH EL PASO QUESTION
OF PRE-CLEARANCE OF EXPORT LICENSES, SIMILAR TO THOSE
WHICH COMMISSION CLAIMED HAD BEEN GIVEN FOR KAMA TRUCK
PROJECT. EL PASO WAS TOLD EXPORT LICENSES WOULD BE
CONSIDERED ON CASE-BY-CASE BASIS. EL PASO STRESSED

IMPORTANCE OF INVOLVING EXIM IN PROJECT BUT STATED IT COULD OBTAIN PRIVATE FINANCING IF IT HAD TO. END SUMMARY.

2. JAMES LISTER, VICE PRESIDENT OF EL PASO LNG, HOUSTON, AND EL PASO'S WASHINGTON REPRESENTATIVE, ROBERT HARBER, HAD MEETINGS WITH DEPUTY ASSISTANT SECRETARY OF THE TREASURY HUFFBAUGER, J. MISHALL GEORGE OF COMMERCE/BEWT, AND STATE OFFICERS (EB/FSE) TO DISCUSS UPCOMING NEGOTIATIONS ON YAKUTSK LNG PROJECT. EL PASO IS SCHEDULED TO MEET IN PARIS WITH JAPANESE PARTNERS THIS WEEK AND

THEN, TOGETHER WITH JAPANESE, WITH SOVIETS IN MOSCOW NEXT WEEK.

3. AGENDA FOR MOSCOW MEETING IS: A) REVIEW OF STATUS OF YAKUTSK RESERVES; B) REVIEW OF DRILLING PROGRAM; C) DISCUSSION OF APPROPRIATE MECHANISM FOR CHECKING SOVIET FINDINGS; D) INITIAL NEGOTIATIONS ON ACTUAL PROJECT FOR DEVELOPMENT OF YAKUTSK. LISTER STATED THEY HAD HEARD THAT SOVIETS SOMETIME AGO CONFIRMED ONE-THIRD OF TOTAL AMOUNT REQUIRED TO MAKE PROJECT COMMERCIALY FEASIBLE (1 TRILLION CUBIC METERS), BUT EXPECTED THAT MORE HAD BEEN CONFIRMED SINCE THEN. EL PASO INTENDED TO ARRANGE WITH SOVIETS FOR INDEPENDENT CONSULTANT TO VISIT YAKUTSK SITE AND EXAMINE SOVIET CONFIRMATION DATA. NO AGREEMENT ON THE GENERAL PROJECT WOULD BE SIGNED UNTIL 1 TCM OF GAS IS PROVEN AND CONFIRMED BY THE CONSULTANT.

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4. LISTER STATED SOVIETS HAVE BEGUN MAKING PURCHASES OF EQUIPMENT IN US. THEY ARE DRAWING ON \$25 MILLION CREDIT ADVANCED BY US BANKS BUT ARE ALSO CONTRACTING FOR EQUIPMENT CONSIDERABLY IN EXCESS OF \$25 MILLION. KAMA PURCHASING COMMISSION IS HANDLING THESE TRANSACTIONS IN US. ACCORDING LISTER, KAMA ASKED EL PASO ABOUT POSSIBILITIES OF SPECIAL ARRANGEMENT OF TYPE WHICH WAS IN EFFECT FOR PURCHASES RELATING TO KAMA TRUCK PLANT. KAMA APPARENTLY WAS REFERRING TO SOME TYPE OF BLANKET PRE-CLEARANCE ARRANGEMENT FOR EXPORT LICENSING, ALTHOUGH IN FACT US AGENCIES INVOLVED HAVE NO RECOLLECTION OF SUCH ARRANGEMENT. MISHALL GEORGE TOLD LISTER THAT LICENSE REQUESTS FOR EQUIPMENT RELATING TO YAKUTSK WOULD BE TAKEN SEPARATELY ON A CASE-BY-CASE BASIS.

5. IN DISCUSSION WITH HUFFBAUER, LISTER STRESSED IMPORTANCE OF OBTAINING EXIM PARTICIPATION IN FINANCING OF YAKUTSK WHICH NOW PROHIBITED BY TRADE ACT AND STEVENSON AMMENDMENT TO EXPORT-IMPORT BANK ACT. IN OTHER

MEETINGS LISTER STATED THAT IF IT HAD TO, EL PASO COULD OBTAIN PRIVATE FINANCING (POSSIBLY ABROAD) FOR PROJECT. LISTER ESTIMATED THAT TOTAL COST OF YAKUTSK PROJECT WOULD BE ABOUT \$8 BILLION.

6. MOST UNUSUAL ASPECT OF DISCUSSIONS WAS SCHEME FOR HANDLING SOVIET PROFITS FROM YAKUTSK ONCE IT IS IN OPERATION WHICH LISTER SAID EL PASO WAS CONSIDERING PROPOSING FORMALLY TO SOVIETS. AS LISTER EXPLAINED TO HUFFBAUER, ONCE DEBT SERVICE OBLIGATIONS AND PRODUCTION COST PAYMENTS HAD BEEN MET, SOVIET PROFITS COULD BE

PUT INTO A TRUST IN US. TRUST WOULD PROVIDE MEANS TO FINANCE PURCHASES OF US EQUIPMENT FOR YAKUTSK OR ANY OTHER PROJECTS WHICH SOVIETS CHOSE AND WOULD THUS INCREASE US EXPORTS TO USSR.

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7. IN RESPONSE HUFFBAUER SAID HE DOUBTED SUCH A TRUST WOULD HAVE TWO FAVORABLE EFFECT ON US EXPORTS WHICH LISTER INDICATED, SINCE SOVIET WOULD BUY WHAT THEY WANTED TO BUY IN ANY CASE. THUS IMPACT OF TRUST IN THIS REGARD WOULD BE PURELY COSMETIC. HUFFBAUER FURTHER EXPRESSED CONCERN THAT SUCH A TRUST MIGHT BE VIEWED AS A PRECEDENT BY OTHER US COMPANIES IN DEALING WITH SOVIETS OR OTHER COUNTRIES. SUCH A MOVE TOWARD BILATERALIZATION OF TRADE MIGHT CAUSE PROBLEMS WITH OTHER COUNTRIES WHICH ARE MEMBERS OF GATT. LISTER APPEARED TO BE LESS ENTHUSIASTIC ABOUT TRUST IDEA AFTER HEARING HUFFBAUER'S COMMENTS. HE INDICATED THAT SOVIETS ON WHOM HE HAD TRIED THE IDEA INFORMALLY WERE NEITHER FOR OR AGAINST IT. IT STRIKES US, HOWEVER, THAT SOVIETS WOULD MUCH PREFER TO HANDLE THEIR OWN HARD CURRENCY PROFITS RATHER THAN TIE THEM UP IN A TRUST IN US.

8. WITH RESPECT TO PRICING OF LNG FROM YAKUTSK, LISTER SAID EL PASO VIEWS LNG IMPORTS AS COMPETITIVE WITH ELECTRIC ENERGY AND OIL. COMPARATIVE FUEL COSTS IN US EAST COAST ARE: OIL \$19.88/BARREL; GAS \$19.84/BARREL EQUIVALENT; (BE); ELECTRIC ENERGY \$65.44/BE. AS LISTER EXPLAINED, AS LONG AS LNG IS PRICED WELL BELOW ELECTRIC ENERGY, EL PASO BELIEVES IT IS A MARKETABLE FUEL IN US.

9. LISTER EMPHASIZED THAT EL PASO PLANS TO GO AHEAD WITH YAKUTSK PROJECT UNLESS TOLD NOT TO BY USG; HOWEVER, THE COMPANY DOES NOT EXPECT TO BE DELIVERING LNG FROM YAKUTSK FOR SEVERAL YEARS BUT BELIEVES IT NECESSARY TO MOVE FORWARD NOW WITH THE PROJECT BECAUSE OF LENGTHY

PROGRESS INVOLVED IN OBTAINING APPROVAL TO IMPORT LNG
INTO US.

9. REQUEST ADDRESSEES REPORT ON PARIS AND MOSCOW
NEGOTIATIONS IF INFORMATION BECOMES AVAILABLE.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: LPG, PROGRAMS (PROJECTS), MEETINGS, NEGOTIATIONS
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Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977STATE057959
Document Source: CORE
Document Unique ID: 00
Drafter: JTREICHEL:DKM
Enclosure: DG ALTERED
Executive Order: GS
Errors: N/A
Expiration:
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Format: TEL
From: STATE
Handling Restrictions: n/a
Image Path:
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Legacy Key: link1977/newtext/t19770354/aaaabvnr.tel
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Litigation Code IDs:
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Litigation History:
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Message ID: 97e680b7-c288-dd11-92da-001cc4696bcc
Office: ORIGIN EUR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
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Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3093201
Secure: OPEN
Status: NATIVE
Subject: YAKUTSK LNG PROJECT
TAGS: ECON, ENRG, ETRD, UR
To: MOSCOW TOKYO MULTIPLE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/97e680b7-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009